

Factors Impacting Iowa Local Option Tax Collections

This document identifies factors impacting local option tax collections. Both regular local option and school infrastructure local option tax have the same exemptions under the state of Iowa. There are sales of tangible personal property and services that are subject to the 5% state sales tax which are exempted for local option sales tax.

When using the State of Iowa Retail Sales Tax Reports to estimate local option sales tax, the following factors should be considered:

Exemptions from Local Option Tax:

- **Lottery Tickets.** All lottery sales are taxed in Polk County and no adjustment needs to be made for any other jurisdiction considering either local option sales tax.
- **Rental of Rooms if the hotel/motel tax already applies.** The 5% state sales tax for the rental of hotel/motel rooms needs to be subtracted out of the county's sales tax data. To do this, take the fiscal year hotel/motel collections from the annual sales tax report and divide the tax by the applicable rate for that jurisdiction. Next multiply the calculated hotel/motel sales by 5 % to determine the amount of tax to subtract out the county's fiscal year tax base.
- **Pay television service consisting of a direct-to-home satellite service.** The sales by an individual retailer are considered confidential, so no adjustment can be made for this.
- **Natural gas or electricity in a city or county subject to a franchise user fee.** Local officials should be contacted to determine if a franchise fee is in place. Although the state cannot release any information pertaining to an individual utility's taxable sales, the financial management division of a local jurisdiction or the utility sales published in the state annual sales report might give some insight in the amount of the adjustment to make to the 5% tax base.
- **Self-propelled building equipment, pile drivers, motorized scaffolding, or attachments customarily drawn or attached to them.** Adjustment unknown.

Start Up Adjustment:

- When a new jurisdiction implements local option sales tax, it usually takes a while before 100% compliance by all retailers located in the jurisdiction is obtained. The department recommends taking a 15% reduction in the first year estimate of local option sales tax collections.

Point of Delivery versus Point of Sales:

- For the state 5% sales tax, the tax is collected at the point of sale. Therefore, any sales made in a jurisdiction that are taxable are reflected in the state 5% tax base. Local option sales taxes are collected by point of delivery. If a jurisdiction has retailers in the building materials, home furniture and appliance, or any other business class in which the products sold may be delivered out of the jurisdiction, then no local option tax would be collected for that jurisdiction. Sales made by these business classes and delivered outside of the taxing jurisdiction can change from quarter to quarter, but if a jurisdiction has these types of retailers, a 10% reduction in the building materials and home furnishings and appliance sales should be taken. The break-out by business class by county is found in the annual sales tax reports that are on the department's Web site at <http://www.state.ia.us/tax/educate/StatReports.html>